

The



's

***of the
Alternative Minimum Tax***

*Presented by:
Bob Erickson, Senior Technical Advisor
Tax Forms & Publications*

June 28, 2005



History of the AMT

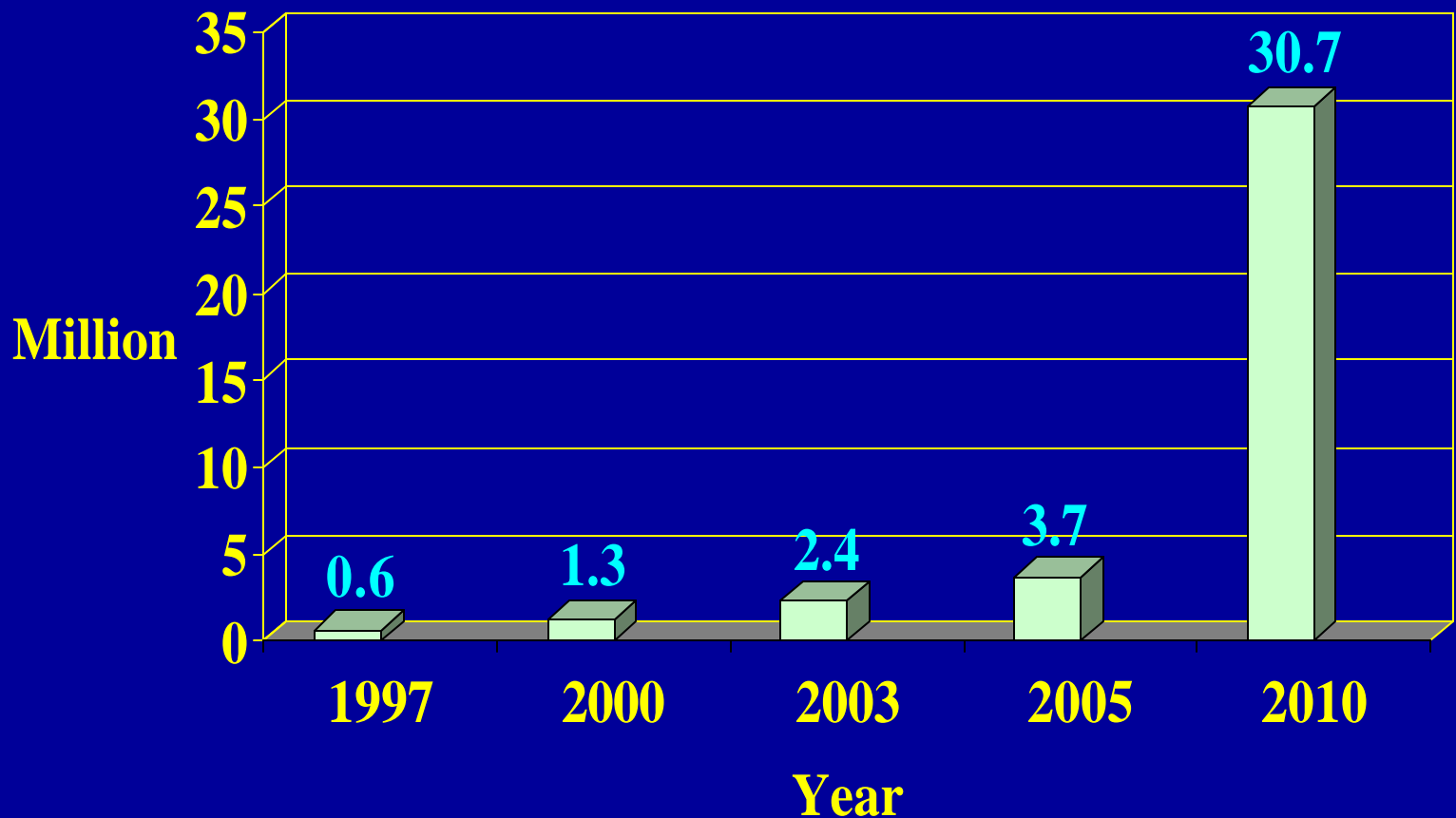
- ❑ In 1966, 155 taxpayers with AGI > \$200,000 paid no income tax.
- ❑ In 1969, Congress reacted by enacting an add-on minimum tax to ensure high-income individuals would not escape payment of tax by using tax preferences. The tax took effect January 1, 1970. The rate was 10% from 1970 to 1975. In 1976, the rate increased to 15%.
- ❑ In 1982, the add-on minimum tax was replaced by the alternative minimum tax (AMT), with two rate brackets, 10% and 20%. In 1983, the 10% bracket was eliminated.
- ❑ In 1987, the method of computing AMT changed, the exemption began to be phased out, and the rate was increased from 20% to 21%.
- ❑ In 1993, the rate was increased to 26% and a second 28% bracket was added.

June 28, 2005



Individuals Subject to the AMT

Number of Taxpayers Affected



How Does It Work?

Start: Regular taxable income

(+ or -) Adjustments (IRC section 56)

(+) Tax preference items (IRC section 57)

= Alternative minimum taxable income

(-) AMT exemption amount

= Taxable excess

Figure tax on taxable excess and then subtract AMT foreign tax credit

= Tentative minimum tax (also limits certain credits)

(-) Regular tax (before tax from Form 4972 and after foreign tax credit)

= Alternative minimum tax





Top 10 Items That Trigger AMT

10. Business tax deductions (such as depreciation, research costs, and intangible drilling costs)
9. Tax-exempt interest from private activity bonds
8. Long-term capital gains (increased AGI triggers phase-out of AMT exemption)
7. Exercise of incentive stock options (difference between market price and strike price)
6. Miscellaneous itemized deductions subject to the 2% floor
5. Medical expenses (10% floor in lieu of 7.5% floor)
4. Mortgage interest on refinanced or second mortgages and home equity loans not used to buy, build, or improve a home
3. State and local income, sales, and property taxes
2. Standard deduction
1. Personal exemptions

June 28, 2005



Tips to Reduce Your AMT

- ☐ Timing your income (such as capital gains and losses) to optimize your AGI for the AMT
- ☐ Deferring deductions (such as state income or sales tax payments) from an AMT year to a year you will not owe AMT (e.g., the year after you retire)
- ☐ Not exercising an incentive stock option (ISO) when the underlying stock has appreciated substantially
- ☐ If you exercise an ISO when the underlying stock has appreciated substantially, sell the stock the same year the option was exercised to avoid an AMT adjustment

June 28, 2005



Credit for Prior Year Minimum Tax

- ☐ In a year you do not owe AMT, you may be able to claim a credit against your regular tax for part or all of the AMT you owed in prior years.
- ☐ For individuals, the credit is limited to the AMT from adjustments and preferences that result in timing differences (such as the ISO adjustment). The AMT owed because of items permanently disallowed for the AMT, called “exclusion items,” cannot be claimed as a credit.
- ☐ Use Form 8801 to figure the credit. Any unused credit can be carried forward indefinitely.

June 28, 2005

Pending Legislation

- ❑ **H.R. 1186**, *Alternative Minimum Tax Repeal Act of 2005*. Repeals the AMT for all taxpayers. Continues the credit for prior year minimum tax, but limited to 90% of regular tax liability (after credits).
- ❑ **H.R. 2987**. Allows the deduction for state and local income and property taxes under the alternative minimum tax.
- ❑ **S. 1103**, *Individual Alternative Minimum Tax Repeal Act of 2005*. Repeals the AMT for individuals, estates, and trusts by making TMT equal to zero (except for corporations). Continues the credit for prior year minimum tax, but limited to 90% of regular tax liability (after credits).

Additional Resources

- ☐ Pub. 942, What You Should Know About AMT (Alternative Minimum Tax)
- ☐ Form 6251: <http://www.irs.gov/pub/irs-pdf/f6251.pdf>
- ☐ Instructions for Form 6251: <http://www.irs.gov/pub/irs-pdf/i6251.pdf>
- ☐ Form 8801: <http://www.irs.gov/pub/irs-pdf/f8801.pdf>